Burning the midnight oil

STEPHAN STURM, CFO OF GLOBAL HEALTHCARE COMPANY FRESENIUS, HAS WON A REPUTATION AS AN INNOVATIVE AND SUCCESSFUL DEAL-MAKER. **PETER WILLIAMS** CAUGHT UP WITH HIM WHEN HE COLLECTED HIS DEALS OF THE YEAR AWARD FOR CORPORATE FINANCE.

PHOTOGRAPHER: ROGER HARRIS

Stephan Sturm, chief financial officer of global healthcare company Fresenius, is sometimes approached by former banking colleagues and asked whether he misses the deal-making. Sturm's reply is that he is doing more deals now than he did as a banker.

Certainly the last few months seem to have been deals, deals, deals. When Fresenius announced the acquisition of APP Pharmaceuticals in July 2008 the overall financing was initially guaranteed by Deutsche Bank. Subsequently, Sturm brought in Credit Suisse and JP Morgan to the deal. The three guaranteed the whole of the clearly laid out financing plan.

For Sturm the aim was twofold: on the one hand to maintain Fresenius' credit rating, if possible, and on the other to avoid diluting earnings per share (EPS). The shareholders were told the deal would be EPS-neutral in 2009 and clearly accretive in 2010.

Sturm says: "That required a balance between debt and equity. We kicked it off in July with the award-winning transaction, the $870m mandatory exchangeable, which the rating agencies viewed as quasi-equity. I do believe that if you do a transaction that has various debt and equity components you need to get your equity in place first. Debt, while not following automatically, is going to be so much easier to put in place."

So as a second component, the company did an outright equity increase in the second week of August. Traditionally, it's not exactly the best season to tap the market, but given the task of a substantial debt offering in a rapidly deteriorating market it was the right call.

In September the company closed a two-tranche syndicated loan, upsized from an initial $1.65bn to $2.5bn. Sturm says: "That wasn't perfect timing because we were closing it after Lehman had gone bust, therefore we had to show some flexibility in the terms. The decision at the time was, do we wait for the markets to recover or do we believe the worst is still ahead of us? Risk-averse, I chose the latter. In retrospect, that was probably the best decision we took in the whole sequence of events."

Despite the equity, equity-linked and the syndicated loan being in place, the financing was still missing a piece. When closing the acquisition, Fresenius had to take out a bridge loan from the banks that had guaranteed the transaction, initially for $800m. However, through working capital and liquidity management that was reduced to $650m.

Through late 2008 and early 2009 the company continued to monitor the bond markets closely. Sturm says: "We were acutely aware of the 18-month drought in the European high-yield market while there were, just, the first signs of life in the US markets. My rule in the capital markets is that if there is a window you should use it because it may shut sooner than you think."

I DO BELIEVE THAT IF YOU DO A TRANSACTION THAT HAS VARIOUS DEBT AND EQUITY COMPONENTS YOU NEED TO GET YOUR EQUITY IN PLACE FIRST. DEBT, WHILE NOT FOLLOWING AUTOMATICALLY, IS GOING TO BE SO MUCH EASIER TO PUT IN PLACE.

So in the third week of January this year Fresenius broke the European drought and launched its high-yield bond deal, again upsized due to demand, this time from $650m to $800m and so was able to repay the bridge. "Given that we have a €100m maturity later this year we are sorted out as far as liquidity is concerned," he says.

So there you go: in the space of seven months five transactions plus the actual acquisition. Sturm admits the treasury team has been kept busy and there have also been the interest rate and foreign exchange (FX) hedges which the company had to execute along the way. He concludes: "Either we were lucky or we were calling it right; already ahead of the transactions we'd hedged the euro proceeds of the exchangeable and the capital increase so we were securing a euro/dollar exchange rate of 1.57 on average. And that in retrospect saved us a triple-digit amount."

In taking out the interest rate hedges Fresenius, like many others, appear in hindsight to have acted too early, but on the other hand Sturm suggests the treasury team isn't paid to speculate and in the long run may well have picked "pretty good points in time".

Perhaps unsurprisingly Sturm's career seems as well executed as his deal making. Following university he spent three years as a management consultant working for McKinsey in Frankfurt and Düsseldorf. However, he had always harboured ambitions to be a banker, so he switched from management consultancy to investment banking. His career spanned BHF Bank – at the time Sturm was there it was probably Germany's pre-eminent investment bank – UBS and Credit Suisse. The move to UBS was prompted by the desire to work

abroad and the institution offered Sturm a posting in London. In all he spent five years in Britain and during his time with the bank UBS merged with SBC.

Deciding it was time to move on again, Sturm joined Credit Suisse (known at that time as Credit Suisse First Boston), moving from London to Frankfurt. Originally an equity capital markets professional working on initial public offerings and follow-on transactions, Sturm became a client coverage banker. And here the connection with Fresenius kicks in. From 1999 he was covering Fresenius as CSFB's key relationship banker for the company. He says: "During that time I got to know the CEO and my predecessor. When my predecessor retired I was approached and I have never regretted the move."

Sturm became CFO in January 2005 and he still works with Fresenius' treasurer and financial director just as he did when he was their banker.

Because he'd covered the company before he moved, Sturm had a good knowledge of the company prior to joining the payroll. He says that part of the benefit of switching from the role of the banker to CFO was the opportunity for a less volatile working life. "In my second week at Fresenius my new assistant put in front of me my diary for the rest of the year. I could tell precisely what I was doing in the third week of October, whereas during my banking career I barely seemed to know what I was doing the week after next!"

Sturm also cheerfully admits to not missing the travelling, the day trips to different countries and "being very inefficient and hanging around airports". The trips still exist but they are more extended and make more sense.

Another factor which makes the role of CFO more attractive than that of investment banker for Sturm is the switch, to a certain degree, from working with clients to being the client: "A change that is not all unattractive."

It is clear that Sturm also enjoys being part of the senior decision-making team as a board member of Fresenius. It's partly because he no longer has "a ton of people" he has to report to. "To put it mildly, we weren't always sharing the same view," he says of his reporting lines when he was a banker.

AS DEMONSTRATED BY THE STRING OF TRANSACTIONS, INCLUDING THE AWARD-WINNING ONE, THE TEAM KNOWS WHAT IT IS DOING.

As CFO, Sturm is in charge of financing, treasury, tax, controlling and reporting, IT, facilities and internal audit. It's a long list, but all the functions are related (with the possible exception of facilities). Sturm praises the strength of his team and emphasises the corporate culture of decentralisation and delegation of responsibility. "As demonstrated by the string of transactions, including the award-winning one, the team knows what it is doing."

The treasury is a small team: the FD is in charge of debt and the rating agency relationships and oversees treasury. In turn the treasurer is assisted by a foreign exchange risk manager, an interest rate risk manager, a person in charge of the records and documentation, and two corporate financiers who look after issues such as intra-group loans or capital requirements at a subsidiary.

Against the backdrop of the worst financial and economic crisis for decades, Sturm says that Fresenius has leveraged up significantly, so the focus for the finance team in the near-term is to generate free cashflow in a bid to deleverage. The company has been able to leverage itself because it is seen as being as recession-proof a business as it is possible to be. Sturm says: "We are non-cyclical, as people become sick whether the economy is good or bad. On that basis I was comfortable with taking the net debt to EBITDA [earnings before interest, tax, depreciation and amortisation] ratio of the group to three and a half."

The aim is to return net debt/EBITDA to the 2.5-3.0 range by 2010. So for now the idea of a major acquisition is on hold, there will be greater stringency on capital expenditure for the next year or so, the company "won't be going overboard" in paying dividends, and there is a determination to maintain the company's rating. Slightly away from the strict remit of financial management, Fresenius has the challenge of successfully completing the integration of acquisitions and reaping the synergy benefits.

But don't expect the Fresenius story to end here. Sturm says the company has been successful at the game of financial yo-yo. "Since the mid-1990s three times we have leveraged up and then afterwards deleveraged reliably and rapidly. Both our debt and equity holders like that: leveraging up to seize the right opportunity to become larger and more successful and then quickly leveraging down to demonstrate we can cope with the debt load we have put on the balance sheet." So watch out for more interesting moves from Fresenius shortly.

Peter Williams is editor of The Treasurer.
editor@treasurers.org